

# Bharti Airtel

7 November 2012

Reuters: BRTI.BO; Bloomberg: BHARTI IN

## Revenue, Margins Boosted By TDSAT Order

Bharti Airtel's 2QFY13 revenue stood at Rs202.7bn, up 4.8% QoQ (2.7%/3.8% ahead of our/consensus estimates, respectively). Revenue was boosted by a TDSAT (Telecom Disputes Settlement and Appellate Tribunal) order pertaining to inter-connect agreements of prior periods. The company recognised Rs5.86bn as revenue owing to this. Adjusted revenue was in line with expectations. Operational performance was also in line, with India minutes of usage (MoU) and revenue declining due to seasonality. Data revenue growth at 20.9% QoQ was heartening. Africa witnessed an impressive rise in MoU/user (14.2% QoQ), indicating good elasticity. Margins were above estimates, aided by revenue booking on the TDSAT order. Higher tax led to net profit coming in at 13.6% below our estimate (4.4% above consensus estimates). Going forward, regulatory headwinds, high debt and interest costs are likely to continue casting a shadow. The 2G spectrum auction next week will provide clarity on possible financial output for telecom companies related to 'excess spectrum' charges. We retain our Sell rating on the stock with a target price of Rs260.

**Adjusted revenue in line:** Bharti Airtel's 2QFY13 top-line of Rs202.7bn was up 4.8% QoQ, above our/consensus estimates by 2.7%/3.8%, respectively. However, adjusting for revenue recognition owing to the TDSAT order, revenue was in line with expectations. Adjusted India and South Asia (SA) revenue stood at Rs105.3bn, down 1.4% QoQ, and below our estimate of Rs106.8bn. MoU declined 2.1% QoQ to 234.2bn, while MoU/user fell 3.8% QoQ to 417 minutes/month owing to seasonality. Revenue per minute (RPM) was flat at 42.6 paise. India voice revenue fell 3.3% QoQ, but data revenue growth at 20.9% QoQ was heartening. Africa revenue stood at US\$1,097mn, up 2.9% QoQ against our estimate of US\$1,106mn (4% constant currency growth). MoU/user posted a strong 14.2% QoQ rise, but was negated by a 14.5% QoQ fall in RPM (4.6 US cents against 5.4 cents in 1QFY13). Telemedia, tower and enterprise revenue were above estimates.

**Margins boosted by TDSAT revenue booking; higher tax prunes net profit:** Bharti Airtel's 2QFY13 margins rose 111bps QoQ to 31.3% (129bps/122bps above our/consensus estimates, respectively). This was boosted by the TDSAT revenue booking. Segment-wise, all segments barring Airtel business witnessed expansion. However, higher tax due to dividend distribution tax paid on dividend from Indus Towers led net profit to fall 5.4% QoQ to Rs7.2bn (13.6% below our estimate, 4.4% above consensus estimates).

**Retain Sell rating on the stock:** While operationally 2QFY13 performance was in line with expectations, regulatory issues remain a headwind, with spectrum re-farming of particular concern to us. Apart from this, high debt, increased interest costs and forex risks lead us to retain our negative view on the stock. **We retain our Sell rating on the stock with a target price of Rs260.**

## SELL

**Sector:** Telecom

**CMP:** Rs271

**Target Price:** Rs260

**Downside:** 4%

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### Key Data

|                          |              |
|--------------------------|--------------|
| Current Shares O/S (mn)  | 3,797.5      |
| Mkt Cap (Rsbn/US\$bn)    | 1,029.5/19.5 |
| 52 Wk H / L (Rs)         | 412/216      |
| Daily Vol. (3M NSE Avg.) | 7,024,881    |

### Price Performance (%)

|               | 1 M | 6 M    | 1 Yr   |
|---------------|-----|--------|--------|
| Bharti Airtel | 2.0 | (14.2) | (31.8) |
| Nifty Index   | 0.2 | 12.6   | 9.0    |

Source: Bloomberg

| Y/E March (Rsmn)                      | 2QFY12   | 1QFY13  | 2QFY13   | Chg. QoQ (%) | Chg. YoY (%) | 1HFY12   | 1HFY13   | Chg. (%) |
|---------------------------------------|----------|---------|----------|--------------|--------------|----------|----------|----------|
| Net revenue                           | 172,698  | 193,501 | 202,732  | 4.8          | 17.4         | 342,447  | 396,233  | 15.7     |
| Operating expenditure                 | 114,613  | 135,132 | 139,322  | 3.1          | 21.6         | 227,382  | 274,454  | 20.7     |
| Operating profit (EBITDA)             | 58,085   | 58,369  | 63,410   | 8.6          | 9.2          | 115,065  | 121,779  | 5.8      |
| Depreciation & amortisation           | 31,839   | 37,571  | 38,560   | 2.6          | 21.1         | 63,153   | 76,131   | 20.6     |
| EBIT                                  | 26,246   | 20,798  | 24,850   | 19.5         | (5.3)        | 51,912   | 45,648   | (12.1)   |
| Other income                          | 66       | 118     | 98       | (16.9)       | 48.5         | 145      | 216      | 49.0     |
| Interest earned (net)                 | (11,186) | (8,211) | (10,219) | 24.5         | (8.6)        | (19,736) | (18,430) | (6.6)    |
| Income before income tax              | 15,126   | 12,629  | 14,729   | 16.6         | (2.6)        | 32,321   | 27,358   | (15.4)   |
| Tax                                   | 4,900    | 4,878   | 7,714    | 58.1         | 57.4         | 10,041   | 12,592   | 25.4     |
| JV profit share and minority interest | (44)     | 129     | (197)    | -            | -            | (142)    | (68)     | -        |
| Net income                            | 10,270   | 7,622   | 7,212    | (5.4)        | (29.8)       | 22,422   | 14,834   | (33.8)   |
| Diluted EPS (Rs)                      | 2.7      | 2.0     | 1.9      | (5.0)        | (29.9)       | 5.9      | 3.9      | (33.8)   |
| EBITDA margin (%)                     | 33.6     | 30.2    | 31.3     | -            | -            | 33.6     | 30.7     | -        |
| EBIT margin (%)                       | 15.2     | 10.7    | 12.3     | -            | -            | 15.2     | 11.5     | -        |
| Net profit margin (%)                 | 5.9      | 3.9     | 3.6      | -            | -            | 6.5      | 3.7      | -        |

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Key financials

| Y/E March (Rsmn) | FY10    | FY11    | FY12    | FY13E   | FY14E   |
|------------------|---------|---------|---------|---------|---------|
| Revenue          | 418,472 | 595,383 | 714,508 | 802,864 | 885,669 |
| YoY (%)          | 13.2    | 42.3    | 20.0    | 12.4    | 10.3    |
| EBITDA           | 167,633 | 201,065 | 236,573 | 251,397 | 285,543 |
| EBITDA (%)       | 40.1    | 33.8    | 33.1    | 31.3    | 32.2    |
| Adj. PAT         | 89,768  | 60,467  | 42,594  | 37,082  | 58,650  |
| YoY (%)          | 6.0     | (32.6)  | (29.6)  | (12.9)  | 58.2    |
| FDEPS (Rs)       | 23.6    | 15.9    | 11.2    | 9.8     | 15.4    |
| RoE (%)          | 24.7    | 13.3    | 8.6     | 7.1     | 10.4    |
| RoCE (%)         | 18.2    | 9.3     | 5.8     | 5.5     | 7.3     |
| P/E (x)          | 11.5    | 17.0    | 24.2    | 27.8    | 17.6    |
| EV/EBITDA (x)    | 6.3     | 8.1     | 7.1     | 6.3     | 5.2     |

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

## Exhibit 2: Actuals versus our estimates, Bloomberg consensus estimates

| (2QFY13)          | Actuals | NBIE estimates | BBG consensus estimates | % variation from NBIE estimates | % variation from BBG consensus |
|-------------------|---------|----------------|-------------------------|---------------------------------|--------------------------------|
| Revenue (Rsmn)    | 202,732 | 197,406        | 195,327                 | 2.7                             | 3.8                            |
| EBITDA (Rsmn)     | 63,410  | 59,191         | 58,720                  | 7.1                             | 8.0                            |
| EBITDA margin (%) | 31.3    | 30.0           | 30.1                    | 129bps                          | 122bps                         |
| Net profit (Rsmn) | 7,212   | 8,346          | 6,909                   | (13.6)                          | 4.4                            |

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

## Operating highlights

- India & SA revenue up 4% QoQ at Rs111.2bn; **this was above our estimate of Rs106.8bn; however, adjusting for revenue recognised due to the TDSAT order, India & SA revenue stood at Rs105.3bn, down 1.4% QoQ**
- **India revenue (excluding SA) declined 2.7% QoQ to Rs99.3bn due to seasonality**
- RPM was flat at 42.6 paise, while average revenue per user (ARPU) declined 3.9% QoQ to Rs177/month
- **It should be noted that operating metrics for the India & SA business include only the proportion of the favourable TDSAT order for the current quarter, with no prior-period adjustments.**
- MoU declined 2.1% QoQ to 234.2bn, while MoU/user declined 3.8% QoQ to 417 minutes/month
- Bharti Airtel's total India mobile subscriber base declined 0.7% QoQ to 185.9mn (187.3mn at the end of 1QFY13)
- VLR (visitor location register) subscribers were flat at 170.1mn, with the proportion of active subscribers at 91.5%
- **Data revenue, as a percentage of mobile revenue, rose slightly to 16.8% versus 16.3% in 1QFY13**
- **3G subscriber base crossed 4.0mn (3.7mn in 1QFY13), and data ARPU rose 9.1% QoQ to Rs43/month (Rs40/month in 1QFY13); data realisation/MB declined (32.4 paise versus 35.3 paise in 1QFY13)**
- **However, data volume grew by a healthy 26.4% QoQ at 15,879mn MB, with data usage per customer rising 18.8% QoQ to 133MB/month**
- The company's Africa business grew 2.9% QoQ at US\$1,097mn, while rupee revenue grew 5.7% QoQ at Rs60.5bn; **this is below our estimate of Rs61bn (US\$1,106mn)**
- **MoU/user grew by a healthy 14.2% QoQ at 138/month (120/month in 1QFY13), indicating good elasticity**
- Africa RPM declined 14.5% QoQ at 4.6 US cents (from 5.4 US cents), MoU grew 20.3% QoQ at 23.6bn and ARPU declined 2.4% QoQ at US\$6.4/month (US\$6.5/month in 1QFY13)
- The total mobile subscriber base in Africa stood at 58.7mn (55.9mn at the end of 1QFY13)
- Airtel Business' (erstwhile Enterprise Services) revenue grew by a healthy 17% QoQ at Rs13.9bn (well above our estimate of Rs12.0bn), telemedia revenue grew 0.9% QoQ at Rs9.53bn (in line with our estimate) and passive infrastructure revenue grew 6.3% QoQ at Rs25.6bn (above our estimate of Rs24.7bn)
- Digital TV services revenue grew 7.6% QoQ at Rs3.9bn (above our estimate of Rs3.79bn).

### Exhibit 3: Mobile services – India and South Asia operating metrics

| Particulars                         | 2QFY12  | 1QFY13  | 2QFY13  | QoQ (%) | YoY (%)  |
|-------------------------------------|---------|---------|---------|---------|----------|
| Gross revenue (Rsmn)                | 97,827  | 106,848 | 111,170 | 4.0     | 13.6     |
| India gross revenue (Rsmn)          | 93,778  | 102,088 | 99,321  | (2.7)   | 5.9      |
| Mobile subscriber base (mn)*        | 172.8   | 187.3   | 185.9   | (0.7)   | 7.6      |
| VLR mobile subscriber base (mn)*    | 153.1   | 170.1   | 170.1   | 0.0     | 11.1     |
| Gross Mobile ARPU (Rs/user/month)*  | 183     | 185     | 177     | (3.9)   | (3.0)    |
| Total minutes of usage (mn)*        | 217,408 | 239,338 | 234,224 | (2.1)   | 7.7      |
| Revenue per minute (Rs)             | 0.43    | 0.43    | 0.43    | (0.2)   | (1.4)    |
| Minutes of usage per user per month | 423     | 433     | 417     | (3.8)   | (1.6)    |
| EBITDA (Rsmn)                       | 32,926  | 32,350  | 34,437  | 6.5     | 4.6      |
| EBITDA margin (%)                   | 33.7    | 30.3    | 31.0    | 70bps   | (268)bps |
| EBITDA/minute (Rs)                  | 0.15    | 0.14    | 0.15    | 8.8     | (2.9)    |
| EBIT (Rsmn)                         | 19,775  | 17,012  | 18,438  | 8.4     | (6.8)    |
| EBIT margin (%)                     | 20.2    | 15.9    | 16.6    | 66bps   | (363)bps |
| EBIT/minute (Rs)                    | 0.09    | 0.07    | 0.08    | 10.7    | (13.5)   |

\* India business only

Source: Company

### Exhibit 4: Mobile services – Voice revenue details

| Particulars                   | 2QFY12 | 1QFY13 | 2QFY13 | QoQ (%) | YoY (%) |
|-------------------------------|--------|--------|--------|---------|---------|
| Voice revenue (Rsmn)          | 78,680 | 85,448 | 82,635 | (3.3)   | 5.0     |
| Voice % of mobile revenue     | 83.9   | 83.7   | 83.2   | (0.5)   | (0.7)   |
| Voice ARPU (Rs/user/month)    | 153    | 155    | 148    | (4.5)   | (3.8)   |
| Voice revenue per minute (Rs) | 0.362  | 0.357  | 0.353  | (1.2)   | (2.5)   |

Source: Company

### Exhibit 5: Mobile services – Non-voice revenue details

| Particulars                         | 2QFY12 | 1QFY13 | 2QFY13 | QoQ (%) | YoY (%) |
|-------------------------------------|--------|--------|--------|---------|---------|
| Non-voice revenue (Rsmn)            | 15,098 | 16,640 | 16,686 | 0.3     | 10.5    |
| Of which:                           |        |        |        |         |         |
| Messaging & VAS revenue (Rsmn)      | 11,441 | 10,128 | 9,472  | (6.5)   | (17.2)  |
| Data revenue (Rsmn)                 | 2,907  | 4,032  | 4,876  | 20.9    | 67.7    |
| Others (Rsmn)                       | 750    | 1,125  | 1,407  | 25.0    | 87.5    |
| Non-voice % of mobile revenue       | 16.1   | 16.3   | 16.8   | 0.5     | 0.7     |
| Of which:                           |        |        |        |         |         |
| Messaging & VAS % of mobile revenue | 12.2   | 10.8   | 10.1   | (0.7)   | (2.1)   |
| Data % of mobile revenue            | 3.1    | 4.3    | 5.2    | 0.9     | 2.1     |
| Others % of mobile revenue          | 0.8    | 1.2    | 1.5    | 0.3     | 0.7     |

Source: Company

### Exhibit 6: Mobile services – Data details

| Particulars                                | 1QFY13 | 2QFY13 | QoQ (%) |
|--|--------|--------|---------|
| Data revenue (Rsmn)                        | 4,032  | 4,876  | 20.9    |
| Data customer base (mn)                    | 38.7   | 40.6   | 5.0     |
| Of which, 3G subscriber base (mn)          | 3.7    | 4.0    | 8.1     |
| Data customers as % of total customer base | 20.6   | 21.8   | 1.2     |
| Data ARPU (Rs/user/month)                  | 40     | 43     | 9.1     |
| Total MBs on the network (mn)              | 12,566 | 15,879 | 26.4    |
| Data usage/customer (MB)                   | 112    | 133    | 18.8    |
| Data realisation/MB (Rs)                   | 0.353  | 0.324  | (8.2)   |

Source: Company

## Exhibit 7: Consolidated Africa operating metrics

| Particulars                         | 2QFY12 | 1QFY13 | 2QFY13 | QoQ (%) | YoY (%) |
|-------------------------------------|--------|--------|--------|---------|---------|
| Gross revenue (Rsmn)                | 47,032 | 57,586 | 60,512 | 5.1     | 28.7    |
| Mobile subscriber base (mn)         | 48.4   | 55.9   | 58.7   | 5.0     | 21.1    |
| Gross Mobile ARPU (US\$/user/month) | 7.3    | 6.5    | 6.4    | (2.4)   | (12.5)  |
| Total minutes of usage (mn)         | 17,950 | 19,651 | 23,646 | 20.3    | 31.7    |
| Revenue per minute (US cents)       | 5.7    | 5.4    | 4.6    | (14.5)  | (19.2)  |
| Minutes of usage per user per month | 128    | 120    | 138    | 14.2    | 7.7     |
| EBITDA (Rsmn)                       | 12,403 | 14,924 | 16,413 | 10.0    | 32.3    |
| EBITDA margin (%)                   | 26.4   | 25.9   | 27.1   | 121bps  | 75bps   |
| EBITDA/minute (Rs)                  | 0.69   | 0.76   | 0.69   | (8.6)   | 0.5     |
| EBIT (Rsmn)                         | 3,768  | 3,405  | 4,397  | 29.1    | 16.7    |
| EBIT margin (%)                     | 8.0    | 5.9    | 7.3    | 135bps  | (75bps) |
| EBIT/minute (Rs)                    | 0.21   | 0.17   | 0.19   | 7.3     | (11.4)  |

Source: Company

## Exhibit 8: Telemedia operating metrics

| Particulars                    | 2QFY12 | 1QFY13 | 2QFY13 | QoQ (%) | YoY (%)  |
|--------------------------------|--------|--------|--------|---------|----------|
| Gross revenue (Rsmn)           | 9,527  | 9,442  | 9,529  | 0.9     | 0.0      |
| Telemedia subscriber base (mn) | 3.3    | 3.3    | 3.3    | 0.1     | (1.6)    |
| Broadband subscribers (mn)     | 1.4    | 1.4    | 1.4    | 0.7     | (1.4)    |
| ARPL (Rs/line/month)           | 955    | 962    | 970    | 0.8     | 1.6      |
| Total minutes of usage (mn)    | 4,598  | 4,162  | 4,156  | (0.1)   | (9.6)    |
| EBITDA (Rsmn)                  | 4,213  | 3,809  | 4,039  | 6.0     | (4.1)    |
| EBITDA margin (%)              | 44.2   | 40.3   | 42.4   | 205bps  | (184)bps |
| EBIT (Rsmn)                    | 2,126  | 1,333  | 1,803  | 35.3    | (15.2)   |
| EBIT margin (%)                | 22.3   | 14.1   | 18.9   | 480bps  | (339)bps |

Source: Company

## Exhibit 9: Passive infrastructure services operating metrics

| Particulars                           | 2QFY12  | 1QFY13  | 2QFY13  | QoQ (%) | YoY (%) |
|---------------------------------------|---------|---------|---------|---------|---------|
| Gross revenue (Rsmn)                  | 23,766  | 24,048  | 25,567  | 6.3     | 7.6     |
| Total towers (Nos.)                   | 78,835  | 79,574  | 80,656  | 1.4     | 2.3     |
| Sharing factor (Tenancy ratio, x)     | 1.86    | 1.90    | 1.91    | 0.5     | 2.9     |
| Total tenancy slots occupied (Nos.)   | 146,548 | 151,458 | 154,296 | 1.9     | 5.3     |
| Net sharing revenue (Rs/tenant/month) | 34,576  | 33,388  | 34,449  | 3.2     | (0.4)   |
| EBITDA (Rsmn)                         | 8,902   | 8,788   | 9,577   | 9.0     | 7.6     |
| EBITDA margin (%)                     | 37.5    | 36.5    | 37.5    | 91bps   | 0bps    |
| EBIT (Rsmn)                           | 3,520   | 3,420   | 4,090   | 19.6    | 16.2    |
| EBIT margin (%)                       | 14.8    | 14.2    | 16.0    | 178bps  | 119bps  |

Source: Company

## Valuation

While operationally 2QFY13 was in line with expectations, regulatory issues remain a headwind, with spectrum re-farming of particular concern to us. Apart from this, high debt, increased interest costs and forex risks lead us to maintain our negative view on the stock. The 2G spectrum auction next week will provide clarity on the possible financial outgo for telecom companies in respect of 'excess spectrum' charges. **We retain our Sell rating on the stock with a target price of Rs260.**

## Rating history

| Date            | Rating | Market price (Rs) | Target price (Rs) |
|-----------------|--------|-------------------|-------------------|
| 9 January 2012  | Sell   | 331               | 300               |
| 19 January 2012 | Sell   | 345               | 300               |
| 8 February 2012 | Sell   | 354               | 300               |
| 19 April 2012   | Sell   | 322               | 300               |
| 24 April 2012   | Sell   | 306               | 300               |
| 2 May 2012      | Sell   | 318               | 300               |
| 25 May 2012     | Hold   | 298               | 300               |
| 9 July 2012     | Sell   | 322               | 300               |
| 8 August 2012   | Sell   | 274               | 260               |
| 4 October 2012  | Sell   | 266               | 260               |

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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